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NARCISSISM, OVER-OPTIMISM, FEAR, ANGER, AND DEPRESSION: THE INTERIOR LIVES OF CORPORATE LEADERS

Jayne W. Barnard*

How can we account for dysfunctional boards? Part of the answer may rest with dysfunctional directors. They may be control freaks, suffer from delusions of grandeur, mistakenly regard their instincts as unassailable, or think that they are immune from society's rules. This observation should come as no surprise. People who have risen to the status of a public company director are no less human than gym teachers, athletes, gardeners, or astronauts; they, too, may be irrationally exuberant, childishly selfish, passionately wrong-headed, or morally lost.

More specifically, corporate directors are not merely economic actors; they are complex, multifaceted, imperfect human beings. They are also highly successful, competitive, and proud individuals. As such, they may enjoy a sense of infallibility and entitlement, and suffer from an inability to recognize their own failings. This confluence of characteristics can lead to dysfunctional boards.

In thinking about dysfunctional boards, the focus should begin with dysfunctional chief executive officers (CEOs). Even though the profile of directors is changing, a significant proportion of corporate directors are still current or former CEOs.¹ This Article will explore some of the recurring pathologies of CEOs—narcissism, over-optimism, fear, anger, and depression.² It will then consider the impact of these pathologies on organizations—hyper-deference, reluctance to provide truthful information to the boss, bullying and intimidation up and down the chain of command, and constantly shifting corporate priorities.³ Finally,

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1. Search firm Spencer Stuart asserts that 33% of current directors are active CEOs. *Board Leadership and Composition Becoming More Independent*, 22nd Annual Spencer Stuart Board Index Reveals Board Changes, SpencerStuart, Oct. 3, 2007, <http://www.spencerstuart.com/about/media/46/>. Many others are former CEOs. *See id.*

2. *See infra* Part I.

3. *See infra* Part II.

this Article will consider the compounding effect of multiple leaders reinforcing each other's pathologies.⁴ When directors fail to recognize CEO pathologies, or even worse when they share them, the consequences for corporations and their stakeholders can be significant.

Certainly, any discussion of pathologies does not apply to all, or even a majority, of CEOs. Nevertheless, one can see troubling examples of leaders whose experience in the cut-throat environment of the executive suite has led them to paralyzing indecision, monumental rage, chronic sleeplessness, anxiety, and sobbing emotional breakdowns.⁵ Life at the top is full of stress and confrontation, and one should not be surprised that some CEOs cannot withstand the pressure.

One also should not be surprised when some CEOs go over the edge in other ways—doctoring the information they share with their boards and with the public, orchestrating decisions that advance their personal goals at the company's expense, and sometimes by presiding over the kinds of meltdowns that have given rise to this Symposium—consider the excesses of Conrad Black, Dennis Kozlowski, Richard Scrushy, and Bernie Ebbers. Indeed, some CEOs may be “functional psychopaths.”⁶

Let us begin, however, with pathologies short of psychopathy, observing how they manifest themselves in the everyday lives of CEOs. The evidence of pathology is not hard to find. Most CEO pathologies are both observable and newsworthy. They command the attention not only of the business press, but also of plaintiffs' lawyers, federal prosecutors, whistleblowers, co-workers, competitors, and even admiring friends.

I. RECURRING PATHOLOGIES AMONG CEOs

We should begin by acknowledging the environmental trappings of corporate success. A CEO's world offers a lot of positive feedback.⁷ In

4. See *infra* Part III.

5. See, e.g., Stephanie Marsh, *Losing It*, TIMES (London), Aug. 2, 2007, at 24 (recounting the psychiatric problems and recovery of Philip Burguières, former CEO of Weatherford International, a Fortune 500 company); Stephanie N. Mehta, *Confessions of a CEO*, FORTUNE, Nov. 12, 2007, at 64 (recounting the emotional challenges and recovery of Dominic Orr, former CEO of Alteon WebSystems, a Silicon Valley data-networking company).

6. See Alan Deutschman, *Is Your Boss a Psychopath?*, FAST COMPANY, July, 2005, at 44 (observing that “Psychopaths have a profound lack of empathy. They use other people callously and remorselessly for their own ends. They seduce victims with a hypnotic charm that masks their true nature as pathological liars, master con artists, and heartless manipulators. Easily bored, they crave constant stimulation, so they seek thrills from real-life ‘games’ they can win—and take pleasure from their power over other people.”); Michael Steinberger, *Psychopathic C.E.O.s*, N.Y. TIMES, Dec. 12, 2004 (Magazine), at 90. See also PAUL BABIAK AND ROBERT D. HARE, *SNAKES IN SUITS: WHEN PSYCHOPATHS GO TO WORK* (2006).

7. Troy A. Paredes, *Corporate Decisionmaking: Too Much Pay, Too Much Deference:*

addition, a CEO's life usually includes wealth, comfortable surroundings, prestige, glamour, and power. Offsetting these benefits are long hours, tight schedules, lack of privacy, grueling travel obligations, intense market scrutiny, second-guessing from the board, and, often (perhaps ironically), social isolation.⁸

Some CEOs escape their situation through substance abuse,⁹ adultery,¹⁰ sexual adventurism,¹¹ extreme physical exertion,¹² creation of a fantasy life,¹³ or immersion in extra-corporate activities¹⁴—someone,

Behavioral Corporate Finance, CEOs, and Corporate Governance, 32 FLA. ST. U. L. REV. 673, 716–17 (2005) (“In general, CEOs receive much praise and recognition throughout their careers from the media, other executives, charitable organizations they support, politicians, and the like. Being a chief executive can be a heady experience.”).

8. Delaware's Vice Chancellor Strine has recently catalogued some of the other miseries of a CEO's job:

Having to explain to employees why the corporation is off-shoring jobs and increasing the employees' share of health insurance costs, having to be lectured by a twenty-something analyst about a penny miss in the quarterly earnings, and having to consider at board meetings cosmetic measures to improve the corporation's corporate governance ratings lest the corporation be subject to an array of shareholder proposals—these are really fun things to do. Add to that the increased focus on regulatory compliance arising out of the scandals of the turn of the century. Then top it off with a high level of public cynicism about CEO pay and integrity. Put it all together and being a public company CEO isn't what it used to be.

Leo E. Strine, Jr., *Toward Common Sense and Common Ground? Reflections on the Shared Interests of Managers and Labor in a More Rational System of Corporate Governance*, 33 IOWA J. CORP. L. 1, 10 (2007). See also STEVE TAPPIN & ANDREW CAVE, *THE SECRETS OF CEOs: 150 GLOBAL CHIEF EXECUTIVES LIFT THE LID ON BUSINESS, LIFE AND LEADERSHIP* (2008) (detailing the pressures and challenges facing CEOs).

9. C.J. Prince, *CEOs Anonymous: Hardly Acknowledged, Rarely Confronted, Alcoholism is a Stealthy Liability that Pervades Corporate America and Puts Some of its Brightest Leaders at Risk*, CHIEF EXECUTIVE, March, 2002 (noting an increasing number of referrals of top executives for interventions).

10. See, e.g., Byron Acohido, *Extramarital Affair Topples Boeing CEO*, USA TODAY, Mar. 8, 2005, at 1B (noting the board's decision to sack Boeing's CEO based on his adulterous affair with another Boeing executive).

11. See, e.g., Vanessa Fuhrmans, *WellPoint Finds Itself Embroiled in Private Drama*, WALL ST. J., June 12, 2007, at A1 (noting the firing of WellPoint's chief financial officer based on his complicated personal life, including relationships with several women, and shuttling back and forth between two “families,” one in California and one in Indiana); Carla Hall, *Lawsuit Has Fashion Mogul in Spotlight*, L.A. TIMES, Jan. 17, 2008, at B1 (describing multiple sexual harassment lawsuits against the CEO of American Apparel, who admits he often attends business meetings in his underwear and once masturbated in front of a magazine writer during an interview).

12. See, e.g., Diane Brady, *Yes, Winning is Still the Only Thing*, BUS. WEEK, Aug. 21, 2006, at 52 (describing the CEO of Jarden Corp., who competes in ultramarathons); Tom McGhee, *CEO Tough: Aging but Still Driven Execs Stretch Their Limits by Running Marathons*, DENVER POST, Dec. 11, 2005, at K1 (describing characteristics of the CEOs who compete in marathons).

13. See, e.g., Andrew Martin, *Whole Foods Executive Used Alias*, N.Y. TIMES, July 12, 2007, at C1 (describing the actions of Whole Foods' CEO, who created a fictitious online personality to post laudatory comments about his company and his leadership).

14. See Ulrike Malmendier & Geoffrey A. Tate, *Superstar CEOs*, (University of California

after all, must head up the Business Roundtable and the Council on Foreign Relations. CEOs may also cope with the stresses of leadership by diverting their energies to conspicuous philanthropy,¹⁵ excessive consumption,¹⁶ sports team ownership,¹⁷ or corporate buccaneering.¹⁸

Several scholars have explored the psychological terrain of top-level executives. We know, for example, that directors are often unable to admit that the failing company on whose board they sit is beyond repair. They simply cannot acknowledge to themselves that they may have failed in their oversight role or that they somehow lack the skills to make things right.¹⁹ Like most people, directors may find it hard to question their own prior judgments; they may “over commit” to earlier decisions, even if those decisions were unwise.²⁰ They will also often ignore or discount new information.²¹

We also know that CEOs often misjudge their ability to extract wealth from takeover targets. CEOs accustomed to success—especially those who have recently been lionized in the press—often become “infected

Working Paper Group, Paper 2007), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=972725 (noting the frequency of CEOs who write autobiographies and take on public roles).

15. See SANDY WEILL & JUDAH S. KRAUSHAAR, *THE REAL DEAL: MY LIFE IN BUSINESS AND PHILANTHROPY* (2006) (recounting the many charitable projects of Citigroup's CEO Sandy Weill, including fundraising for the Weill Medical Center and the renovation of Carnegie Hall).

16. See Crocker H. Liu & David Yermack, *Where are the Shareholders' Mansions? CEOs' Home Purchases, Stock Sales, and Subsequent Company Performance* (2007), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=970413 (tracking CEOs' purchases of extremely large and costly estates).

17. See Jeffrey Cohen, Yuan Ding, Cédric Lesage & Hervé Stolowy, *The Role of Managers' Behavior in Corporate Fraud* (July 14, 2008) (unpublished manuscript), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1160076 (noting anecdotal evidence of CEOs who buy sports teams).

18. See Jeffrey Sonnenfeld, *Expanding Without Managing*, N.Y. TIMES, June 12, 2002, at A29 (describing the compulsive desire to acquire new companies exhibited by Dennis Kozlowski, Ken Lay, Bernie Ebbers, Gary Winnick, and John Rigas; Kozlowski was known as “Deal-a-Day Dennis”).

19. A. Mechele Dickerson, *A Behavioral Approach to Analyzing Corporate Failures*, 38 WAKE FOREST L. REV. 1, 4 (2003).

20. See Katherine Hall, *Looking Beneath the Surface: The Impact of Psychology on Corporate Decisionmaking*, INT'L J.L. & MGMT. (forthcoming), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=993313 (describing the role of cognitive biases in board-level decision making generally); Katherine Hall, *The Psychology of Corporate Dishonesty*, 19 AUSTL. J. CORP. L. 268 (2006) (describing specific cognitive biases including pre-occupation with self-image, the deflection of negative information and the commitment to a decision already made); Joan MacLeod Heminway, *Personal Facts About Executive Officers: A Proposal for Tailored Disclosures to Encourage Reasonable Investor Behavior*, 42 WAKE FOREST L. REV. 749, 768–71 (2007) (describing the cognitive biases and processes that often drive executive behavior); Donald C. Langevoort, *Organized Illusions: A Behavioral Theory of Why Corporations Mislead Stock Market Investors (and Cause Other Social Harms)*, 146 U. PA. L. REV. 101, 108 (1997) (examining the impact of various “systematic ‘perceptual filters,’” including over-optimism, commitment to previous decisions, and seeing what one wants to see, especially if it advances one's goals, on corporate decision making).

21. Dickerson, *supra* note 19, at 5.

with hubris,” and end up paying excessive acquisition premiums.²² CEOs at the end of their careers may feel a special need to make one last splash and cement their place in history, so they orchestrate acquisitions impulsively.²³ At the other end of the spectrum, new CEOs may believe their own press clippings²⁴ and undertake deals that are beyond their competence to manage.²⁵

Some recent scholarship has divided the CEO universe into psychological “types,” positioning CEOs on scales that reflect their “militarism,” “anomism,” “hostility,” and “adventurism”—and drawing correlations between each CEO’s “type” and his or her company’s behavior.²⁶ Other recent scholarship has examined the relationship between personal facts about CEOs (e.g., divorce, death in the family) and their companies’ financial performance.²⁷ As it happens, these personal facts may have a significant impact on an organization.²⁸

European scholars have recently cautioned against attributing too much power to CEOs—most corporate decisions, they argue, are (and should be) made by teams.²⁹ Still, the prevailing “tone-at-the-top” literature suggests the influence of CEOs is both broad and deep.³⁰

This Article adds to the current scholarship by focusing on five pathologies often seen in the lives of CEOs. It relies not only on academic studies, but also on lay observations of highly visible CEOs.

22. See Mathew L.A. Hayward & Donald C. Hambrick, *Explaining the Premiums Paid for Large Acquisitions: Evidence of CEO Hubris*, 42 ADMIN. SCI. Q. 103 (1997).

23. Joann S. Lublin, *Aging CEOs Stage Big Deals as Career Finales*, WALL ST. J., June 4, 1997, at B1.

24. See generally RAKESH KHURANA, *SEARCHING FOR A CORPORATE SAVIOR: THE IRRATIONAL QUEST FOR CHARISMATIC CEOs* (2002) (noting the superhuman abilities often ascribed to new CEOs selected through a search process).

25. Carly Fiorina at Hewlett-Packard may be one example of this phenomenon. See *infra* note 115 and accompanying text.

26. William C. Bradford, “*Because That’s Where the Money Is*”: *Toward a Theory and Strategy of Corporate Legal Compliance* (July 11, 2007) (unpublished manuscript University of Florida Warrington College of Business), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=955428.

27. Mark Maremont, *Scholars Link Success of Firms to Lives of CEOs: A Family Death Hurts, Studies Say, As Does Buying a Mansion*, WALL ST. J., Sept. 5, 2007, at A1.

28. *Id.*

29. Markus Glaser, Phillip Schäfers & Martin Weber, *Managerial Optimism and Corporate Investment: Is the CEO Alone Responsible for the Relation?* (AFA 2008 New Orleans Meetings Paper), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=967649.

30. See Renée B. Adams, Heitor Almeida & Daniel Ferreira, *Powerful CEOs and Their Impact on Corporate Performance*, 18 REV. FIN. STUD. 1403 (2005) (concluding that powerful CEOs are likely to drive firms to “extreme consequences,” both positive and negative); John M. Darley, *The Cognitive and Social Psychology of Contagious Organizational Corruption*, 70 BROOK. L. REV. 1177, 1190 (2005) (describing the process by which subordinates loyally implement the bad decisions of their leaders).

The sources used to illuminate these pathologies include critical biographies, magazine profiles, and the memoirs of these CEOs' subordinates and colleagues. Some of the subjects of these works have been spectacularly successful; others have brought their companies to ruin. What unites them, however, is the fact that they are flawed human beings.

A. Narcissism

The most common and easily documented characteristic of high-visibility CEOs is narcissism—a sense of centrality and indispensability to the CEO's business. The existence of narcissism at this level is no coincidence: successful managers typically exhibit narcissistic personality traits throughout their business careers. Stated another way, narcissism conscientiously deployed often begets success.³¹

Thus, it should come as no surprise that CEOs often exhibit strong narcissistic traits. Michael Maccoby argues that narcissism can be a “plus” in a top-level executive.³² He acknowledges, however, that narcissistic executives can also suck the life out of an organization:

No matter what their strengths, productive narcissists are incredibly difficult to work for. They don't learn easily from others. They are oversensitive to any kind of criticism, which they take personally. They bully subordinates and dominate meetings. They don't want to hear about anyone else's feelings. They are distrustful and paranoid. They can become grandiose, especially when they start to succeed. Perhaps their most frustrating quality is that they almost never listen to anyone.³³

It is important to recognize that narcissism is not the same as vanity or high self-regard. Nor is it merely “a stand-in for bad manners or rude, self-centered behavior.”³⁴ Rather, narcissism is comprised of several interlocked traits. First, “[a] true narcissist is the kind of person who (1) doesn't listen to anyone else when he believes in doing something and

31. See Steve Fishman, *Boss Science*, N.Y. MAG., Apr. 1, 2007, at 42, 44–47, available at <http://nymag.com/guides/2007/officelife/30010/> (“Research suggests that he who climbs quickly is likely more talkative, social, and at the same time more obviously—*obviously* is the key word—dominant than his peers. ‘He answers to himself,’ as one management consultant puts it. He’s self-referential—‘I believe . . .’ is the way he starts every sentence. He has a talent for manipulating others’ impressions. . . . ‘He’s the one motivated to sell himself to peers.’”).

32. See MICHAEL MACCOBY, *THE PRODUCTIVE NARCISSIST: THE PROMISE AND PERIL OF VISIONARY LEADERSHIP* (2003) (positing that some narcissists—those he terms “productive narcissists”—can not only lead but transform their environments, citing Henry Ford, Bill Gates, and Jack Welch, among others). This book was updated and reissued as MICHAEL MACCOBY, *NARCISSISTIC LEADERS: WHO SUCCEEDS AND WHO FAILS* (2007).

33. MACCOBY, *THE PRODUCTIVE NARCISSIST*, *supra* note 32, at 203.

34. *Id.* at 39.

(2) has a precise vision of how things should be.”³⁵ Narcissists are thus single-minded. “[They] create a vision to change the world; they are bold risk takers who think and act independently, pursuing their vision with great passion and perseverance.”³⁶

Second, narcissists often exhibit “an insatiable [] need to be admired.”³⁷ Thus, “[they] are driven to [try to] be captivating, inspirational, charming, and seductive.”³⁸ They cultivate what passes for people skills and use those skills to manipulate others. They see themselves as leaders whom others should naturally follow.

Third, narcissists cannot tolerate what they perceive as disrespect. “They are oversensitive to criticism, don’t listen to anyone, have a tendency to exaggerate to the point of lying, are quick to anger at put-downs, are isolated, paranoid, and grandiose.”³⁹ Narcissism can be tiresome for those who must function in its orbit. Narcissism can also drive Herculean effort, and a passionate commitment to personal success.

Jack Welch was a classic narcissist, putting himself at the center of GE’s educational effort, loudly dominating management reviews, and micromanaging other executives’ work.⁴⁰ He would even rewrite his subordinates’ presentations, re-drawing charts and selecting the precise words that they should use to make their (or *his*) arguments.⁴¹ Welch’s narcissism also extended to his personal life. For example, Welch was very proud of his golfing skills and demanded that his subordinates tell him what other golfers said about his game.⁴² He once screamed at his communications chief for publishing an unflattering picture of him in an annual report: “It makes me look *bald*,” he complained.⁴³

“Over the course of his career, Jack Welch’s dominance over GE became so complete, and his seeming need for acclaim so embracing,

35. *Id.* at 9.

36. *Id.* at xiv.

37. ALAN DOWNS, BEYOND THE LOOKING GLASS: OVERCOMING THE SEDUCTIVE CULTURE OF CORPORATE NARCISSISM 17 (1997).

38. MACCOBY, THE PRODUCTIVE NARCISSIST, *supra* note 32, at 67.

39. *Id.* at xv.

40. See generally JACK WELCH WITH JOHN A. BYRNE, JACK: STRAIGHT FROM THE GUT (2001).

41. BILL LANE, JACKED UP: THE INSIDE STORY OF HOW JACK WELCH TALKED GE INTO BECOMING THE WORLD’S GREATEST COMPANY 90, 113 (2008). See also John Cassidy, *Gut Punch: How Great Was Jack Welch?*, NEW YORKER, Oct. 1, 2001, at 112 (“As chairman, Welch interfered in every aspect of GE’s operations, down to vetting the scripts for refrigerator commercials. [He also personally negotiated] with Jerry Seinfeld to extend ‘Seinfeld’ for another season.”).

42. LANE, *supra* note 41, at 202 (“Really!!! You played with him? What did he say [about me]?”).

43. *Id.* at 3.

that by the end of his tenure as chairman and CEO, he seemed—to the outside world at least—to be running GE almost single-handedly.”⁴⁴

Another legendary narcissist was Disney’s CEO Michael Eisner. Eisner insisted on hosting the Disney television shows, refused to hire anyone reasonably likely to succeed him as CEO, and micromanaged every aspect of the Disney empire—rewriting scripts, selecting music for movies, and fiddling with the design of Disney’s corporate headquarters in Burbank.⁴⁵ A student of architecture, Eisner initiated an international competition for the design of buildings at EuroDisney. Several of the world’s most famous architects “made their presentations at Eisner’s house in Bel Air over a four-day period, a veritable movable feast of architecture for Eisner”⁴⁶ Eisner then spent weeks obsessing about design details for the theme park. He envisioned himself as “producer, director, editor, and even the actor[] in every foot of the [EuroDisney] film.”⁴⁷ Sometimes, he even imagined himself to be the spiritual, if not actual, heir to Disney’s founder, Walt Disney.⁴⁸

Eisner’s narcissism infused his management style. According to author James B. Stewart,

[Eisner’s management shortcomings] include[d] an inability to delegate, a frequent mistrust of subordinates, impulsive and uncritical judgments, his pitting of one executive against another, his disrespect for any hierarchy or authority other than his own, his encouragement of a culture of spying and back-channeling, his frequent failure to acknowledge the achievements of others, and above all, his inability to groom a successor, notwithstanding his designation of Bob Iger as his heir apparent.⁴⁹

Citibank’s Sandy Weill was another well-known narcissist⁵⁰ as are Oracle’s Larry Ellison⁵¹ and Martha Stewart Omnimedia’s Martha

44. CHRISTOPHER BYRON, *TESTOSTERONE INC.: TALES OF CEOs RUN WILD* 49 (2004).

45. See generally JAMES B. STEWART, *DISNEY WAR* (2005).

46. *Id.* at 83.

47. *Id.*

48. *Id.* at 514 (recounting Eisner’s habit of writing down the French version of Disney—D’Isner. “Now look at this,” he would say. “D’Isner . . . is Eisner without the D.”).

49. *Id.* at 532.

50. See MONICA LANGLEY, *TEARING DOWN THE WALLS: HOW SANDY WEILL FOUGHT HIS WAY TO THE TOP OF THE FINANCIAL WORLD . . . AND THEN NEARLY LOST IT ALL* 95, 364, 366 (2004) (noting Weill’s maintenance of a scrapbook containing “fan letters” addressed to him; his “delight” at the number of times his picture was featured in the society pages of the *New York Times*, and the costly portrait he ordered of his wife and himself, which was unveiled at a black-tie corporate gathering). Weill’s most visible acts of narcissism involved putting his name on the Weill Medical College of Cornell University and the Weill Recital Hall at Carnegie Hall.

51. See KAREN SOUTHWICK, *EVERYONE ELSE MUST FAIL: THE UNVARNISHED TRUTH ABOUT ORACLE AND LARRY ELLISON* 1, 22, 45, 133, 153–54 (2003) (noting Ellison’s inability to tolerate anyone who stands up to him; his discomfort with anyone who might be perceived as a worthy

Stewart.⁵² Perhaps the most narcissistic CEO in history, however, was Conrad Black of Hollinger International. Black angled tirelessly for a knighthood from the British government; surrounded himself with celebrities (Henry Kissinger and Margaret Thatcher); immersed himself in the study of his heroes (FDR, Lincoln, Napoleon), with whom he identified and whom he endlessly quoted; and always responded to criticism by claiming that his critics were simply jealous of his success.⁵³ Black's narcissism ran so deep that he commissioned Andy Warhol to paint his portrait⁵⁴ and he replaced the "winged lady" hood ornaments on his Rolls Royce with his own symbol—a gold-plated eagle killing a snake.⁵⁵

Why do these forms of narcissism matter in the larger scheme of things? Why should we care whether Jack Welch was a micromanager or Conrad Black loved the sound of his own voice? In fact, we might not care if these traits were benign or inconsequential. As we will see shortly, however, narcissism in a corporate setting can generate great harm.

B. Over-Optimism

Evidence of CEO over-optimism is less easy to capture than evidence of narcissism. First, unlike narcissism, over-optimism often feels good to subordinates and co-workers and rarely fosters resentment or leaks to the press. Second, over-optimism, at least in the short run, is often essential to leadership success. That is, to be effective as motivators and spokesmen for their companies, CEOs must be—or at least must seem to

successor; his relentless desire to outperform Bill Gates; and his preoccupation with his personal legacy). "He's a narcissistic loner who thrives on being the center of attention and power." *Id.* at 291. *See also* MATTHEW SYMONDS, *SOFTWARE: AN INTIMATE PORTRAIT OF LARRY ELLISON AND ORACLE* 182 (2003) (noting Ellison's exercise of power and inability to delegate). "Whether he was suggesting a solution to some obscure engineering issue concerning the database, deconstructing some back-office process at Oracle to understand what was needed from applications to automate a business flow seamlessly, tweaking a sales compensation plan to eliminate perverse incentives, designing a 'portlet' for Oracle's executive dashboard, penning the latest ad, or sharpening an online sales presentation, Ellison was everywhere." *Id.* at 285.

52. CHRISTOPHER M. BYRON, *MARTHA INC.: THE INCREDIBLE STORY OF MARTHA STEWART LIVING OMNIMEDIA* 102 (2002) (noting that Stewart viewed her employees as "not much more than stage props in the Martha Stewart Story . . . the lifelong drama in which she played the starring role"). Stewart has exhibited a monumental need to control her environment. Stewart once told Oprah Winfrey, "I can almost bend steel with my mind. I can bend anything if I try hard enough. I can make myself do almost anything." *Id.* at 25.

53. *See generally* TOM BOWER, *OUTRAGEOUS FORTUNE: THE RISE AND RUIN OF CONRAD AND LADY BLACK* (2006).

54. *Id.* at 64.

55. *Id.* at 57.

be—optimistic. They must articulate a future that encourages employees and customers to want to follow them. CEOs must also fashion a message about which investors can be enthusiastic.

There is a difference, though, between well-grounded optimism and over-optimism (or “delusional optimism”).⁵⁶ Over-optimism is disconnected from business reality. Over-optimists fail to recognize the limits of human control. Over-optimism may be a function of lack of information or lack of judgment.⁵⁷ And, in the worst cases, over-optimism may simply be a ruse, allowing a CEO to fend off critics and keep moving forward with a fruitless or misguided plan.

CEO over-optimism was evident in many recent corporate scandals. For example, Ken Lay believed that Enron had a plausible business model and that real market dominance was an achievable goal. He repeatedly resisted advice from his investment manager to diversify his Enron-heavy portfolio.⁵⁸ When the company’s share price began to drop in the spring of 2001, “[h]is belief that [the] share price would pop back up was unshakable.”⁵⁹ Within months, of course, his over-optimistic prediction was proven to be dead wrong.

Similarly, Bernie Ebbers believed that WorldCom’s accumulation of telephone operating companies and expansion of broadband capacity could ultimately become a profitable enterprise.⁶⁰ He also believed that using his WorldCom stock as collateral for massive personal loans was a good idea.⁶¹ Conrad Black believed that his Canadian media properties could be profitable, even though they were clearly cannibalizing each other; that he could beat Rupert Murdoch in a price war among London newspapers; and that his society friends would overlook and forgive his

56. Dan Lovallo & Daniel Kahneman, *Delusions of Success: How Optimism Undermines Executive Decisions*, HARV. BUS. REV., July, 2003, at 57, 58.

57. Mathew Hayward has suggested that over-optimism derives from a combination of excess pride, failure to get the right help, failure to read the situation, and failure to anticipate adverse consequences. MATHEW HAYWARD, EGO CHECK: WHY EXECUTIVE HUBRIS IS WRECKING COMPANIES AND CAREERS AND HOW TO AVOID THE TRAP !! (2007). Troy Paredes has suggested that over-optimism may be a result of (1) the tournament process by which CEOs are selected; (2) the amount of power that is entrusted to CEOs; and (3) the vast compensation that is paid to CEOs. See Paredes, *supra* note 7 at 678 (tournament), 680 (power), 678, 713–20 (compensation).

58. KURT EICHENWALD, CONSPIRACY OF FOOLS: A TRUE STORY 370 (2005).

59. *Id.* at 466.

60. OM MALIK, BROADBANDITS: INSIDE THE \$750 BILLION TELECOM HEIST 9 (2003) (noting that, under Ebbers’ management, WorldCom bought up “about 70 companies and pushed the stock up 7,000 percent”).

61. *Id.* at 31 (noting that Ebbers borrowed some \$900 million, posting his WorldCom stock as collateral).

growing legal problems.⁶² “True Believers, he told himself, always succeeded.”⁶³

It is important to note that CEO over-optimism does not always precede corporate failure. Even successful CEOs can get caught up in their message and fall prey to over-optimism. For example, Michael Eisner grossly overestimated the prospects for EuroDisney.⁶⁴ He also overestimated the prospects of several of the Disney studio’s movies.⁶⁵ Similarly, Jack Welch underestimated the public demand for a clean-up after GE dumped tons of PCBs into the Hudson River. He then overestimated his clout with the Bush administration, which finally made GE clean up the mess.⁶⁶ Andy Grove really believed that Intel customers would not protest about problems with the Pentium chip that gave rise to occasional mathematical errors.⁶⁷ All of these leaders overcame these miscalculations. But, as we will see later in this Article, CEO over-optimism may also lead to disaster.

C. Fear

Another, often hidden, characteristic of many CEOs is fear. Evidence of fear is often hard to tease out, since CEOs labor to mask their fear from subordinates and co-workers (and also from themselves). They rarely write about it their memoirs and rarely talk about it with the press.

CEOs face many external sources of fear—changing consumer tastes, day-to-day competition, economic downturns, critical media, pushy hedge fund managers who want to reorder the company’s priorities, rogue subordinates whose actions will reflect badly on the CEO, demanding regulators, intrusive Congressmen, and every employee in the company who thinks he or she is smarter than the boss.

Additionally, CEOs may face internal sources of fear. They may fear being discovered as an imposter, impotence to affect their will, and

62. BOWER, *supra* note 53 (passim).

63. *Id.* at 384. “Black believed his destiny was glory, regardless of the odds.” *Id.* at 248.

64. See STEWART, *supra* note 45, at 129.

65. See, e.g., *id.* at 111–12 (noting Eisner’s infatuation with *Dick Tracy*, which he thought would perform like *Raiders of the Lost Ark*. The film receipts “barely covered production and marketing costs. Merchandise tie-ins languished mostly unsold.”)

66. Laura Cohn, *Christie Whitman Starts to Get Some Respect*, BUS. WK., Aug. 27, 2001, at 61 (“When Jack Welch speaks, the White House—any White House—usually listens. So it came as a shock when Environmental Protection Agency Administrator Christine Todd Whitman announced on Aug. 1 that General Electric Co. (GE) would be responsible for the biggest dredging project in U.S. history. Despite the vociferous objections of GE Chief Executive Welch, a Bush campaign contributor, the EPA received White House approval to order the estimated \$460 million cleanup of the Hudson River.”).

67. ANDREW S. GROVE, ONLY THE PARANOID SURVIVE: HOW TO EXPLOIT THE CRISIS POINTS THAT CHALLENGE EVERY COMPANY AND CAREER 12–14 (1996).

disgrace in the event of failure. For men, in particular, the fears are startlingly metaphorical—can I get it up? Can I keep it up? Core issues of identity are at the heart of these fears, and the pressure to perform is constant and unrelenting: “[E]very quarter you get an enormous report card,” recalls one former CEO.⁶⁸ “To be the final decision maker in a multibillion-dollar business with hundreds of thousands of employees and pensioners relying on you is an awesome responsibility. The stresses placed on CEOs almost require them to be superhuman and they are not always that well-prepared for the role.”⁶⁹

Fear, of course, can be a great motivator,⁷⁰ but it can also cause CEOs to make tragic mistakes. Many of the problems at Enron and WorldCom, for example, can be traced to senior executives’ fears that they would lose their rock-star status if they could not make it appear that they were meeting their quarterly targets.⁷¹ John Delorean went so far as to resort to an illegal drug deal when he feared (correctly) that his company was on the brink of bankruptcy.⁷²

Fear may affect CEOs in less dramatic ways as well. When Oracle faced a serious cash shortage, Larry Ellison withdrew from his family, which shocked his wife: “There was a note in his voice that you didn’t usually hear with him—just scared, worried.”⁷³ When Anne Mulcahy faced the possibility that Xerox would have to file for bankruptcy, she felt totally helpless and overwhelmed.⁷⁴

CEO fear, as in all walks of life, may cause anxiety, sleeplessness, hyper-vigilance, withdrawal, or various forms of compensatory behavior. In a job that is already solitary and insular, fear may isolate a CEO even further.

68. Marsh, *supra* note 5 (quoting Philip Burguières, former CEO of Weatherford International).

69. TAPPIN & CAVE, *supra* note 8, at 13.

70. GROVE, *supra* note 67, at 117 (“Fear plays a major role in creating and maintaining . . . passion. Fear of competition, fear of bankruptcy, fear of being wrong and fear of losing can all be powerful motivators.”).

71. See EICHENWALD, *supra* note 58, at 164 (noting company-wide pressure to help Enron “make its numbers” at year end), 295 (noting that, “if [Enron] didn’t hit its numbers, its executives wouldn’t get their bonuses”).

72. IVAN FALLON & JAMES SRODES, DREAM MAKER: THE RISE AND FALL OF JOHN Z. DELOREAN (1983).

73. MIKE WILSON, THE DIFFERENCE BETWEEN GOD AND LARRY ELLISON: GOD DOESN’T THINK HE’S LARRY ELLISON 229 (1997).

74. BILL GEORGE WITH PETER SIMS, TRUE NORTH: DISCOVER YOUR AUTHENTIC LEADERSHIP 173 (2007) (“Around 8:30 p.m. on my way home, I pulled over to the side of the Merritt Parkway and said to myself, ‘I don’t know where to go. I don’t want to go home. There’s just no place to go.’”)

D. Anger

If frustration breeds aggression, we should not be surprised to find that many CEOs get angry. When business goes bad or subordinates disappoint, outbursts of temper are often the response. Evidence of CEO anger is everywhere in the business literature. Some of the most prominent CEOs seem to lack any sense of self-restraint.

For example, both Jack Welch and Michael Eisner were legendary screamers.⁷⁵ Bill Gates would become so angry in meetings that he would spray spit all over the table.⁷⁶ Similarly, Microsoft's Steve Ballmer regularly swore at anyone within earshot.⁷⁷ One of his senior managers scheduled a three-week trip to Nepal, joking that "maybe if [I] went high enough into the Himalayas, [I] could not hear Steve Ballmer screaming at [me]."⁷⁸

Citigroup's Sandy Weill was known for his "explosive" temper.⁷⁹ Martha Stewart raged not only at her employees, but also at neighborhood children, local workmen, social acquaintances, and even

75. Jack Welch, for example, was well-known for his "volcanic eruptions." LANE, *supra* note 41, at 311. Welch regularly could be heard yelling at his direct reports: "YOU DUMB SHIT!!!" and "You asshole! You're in deep shit! You get this cleaned up or you're outta here." *Id.* at 124, 281. His shouting could even be heard through his "soundproof" office door. *Id.* at 201-02. Welch "actually seemed to enjoy picking fights with his executives . . . It was Welch's way of asserting control—the street-corner tough kid and bully from North Salem keeping his gang members in line." BYRON, *supra* note 44, at 123.

Michael Eisner regularly launched into "tirades" against his Disney colleagues (typically behind their backs). STEWART, *supra* note 45, at 161-62, 252. Eisner is variously described as "storming" through the office, "beside himself" when Michael Ovitz refused to resign, and "furious" on several other occasions. *Id.* at 253, 256, 266, 272, 375, 448. At one meeting, Eisner yelled at one of his senior managers: "Eisner looked like he might explode, his eyes bulging." *Id.* at 449.

76. Charles Arthur, *In Microsoft's Cool World, Top Man Was Mister Angry*, INDEPENDENT (London) Jan. 15, 2000. As a young CEO, Gates' temper sometimes drove away customers. JAMES WALLACE & JIM ERICKSON, *HARD DRIVE: BILL GATES AND THE MAKING OF THE MICROSOFT EMPIRE* 152 (1992) (describing Intel's decision not to buy from Microsoft after a Gates temper tantrum). Gates was described as "confrontational," "absolutely purple he was screaming so much," subject to "screaming fits," and "visibly angry, sometimes throwing his pencil. He often yelled or pounded his fist on the table to make a point." *Id.* at 159, 162, 250, 280. Once, when a subordinate protested the workload, "Gates exploded, slamming his fist down on the table to get his point across and carrying on in a rage." *Id.* at 283. During the government's antitrust case against Microsoft, Gates "erupted" in an interview with the *Washington Post*. KEN AULETTA, *WORLD WAR 3.0: MICROSOFT AND ITS ENEMIES* 15 (2001).

77. Ballmer once legendarily threw a chair across the room while engaged in a tirade about Google. "F***** Eric Schmidt [Google's chairman and CEO] is a f***** p****. I'm going to f***** bury that guy. I have done it before. I will do it again. I'm going to f***** kill Google." RICHARD S. TEDLOW, *ANDY GROVE: THE LIFE AND TIMES OF AN AMERICAN* 302 (2006).

78. JOHN WOOD, *LEAVING MICROSOFT TO CHANGE THE WORLD: AN ENTREPRENEUR'S ODYSSEY TO EDUCATE THE WORLD'S CHILDREN* 7 (2007).

79. See Anthony Bianco & Heather Timmons, *Crisis at Citi*, *BUS. WEEK*, Sept. 9, 2002, at 34.

journalists.⁸⁰ Her biographer described her as “deeply rehearsed in the politics of abuse.”⁸¹

This kind of behavior, incidentally, is what academics call “asshole” behavior. Stanford Business School’s Robert Sutton, the originator of “asshole” theory, has identified several angry behaviors including “personal insults,” “invading one’s ‘personal territory,’” “threats and intimidation, both verbal and nonverbal,” “withering e-mail flames,” “public shaming or ‘status degradation’ rituals,” “rude interruptions,” and “dirty looks” as among the “dirty dozen” of distinctively asshole behaviors.⁸²

E. Depression

Depression is the most difficult of the CEO pathologies to document. While narcissism and anger can rarely be masked and are often reported externally, depression, like fear, is often a closely-kept and shameful secret. Still, according to one former CEO, “[d]epression is chronic and widespread in the executive office”⁸³ In fact, this person, who now counsels other CEOs, has said that “50% of CEOs, at some time in their lives, experience depression.”⁸⁴

Even though that estimate might seem unlikely, CEO depression is probably more common than we suspect. A handful of CEOs, including Ted Turner and CNN’s Tom Johnson, have publicly admitted to suffering from depression.⁸⁵ More commonly, others have kept their affliction deeply hidden, instead confiding only in a trusted associate or two, secretly meeting with their psychotherapists after hours, and making excuses for their inability to concentrate or make decisions.⁸⁶ In the aftermath of his downfall, we have learned that Conrad Black suffered repeatedly from severe depression.⁸⁷ Likewise, Martha Stewart is said to have suffered from “fits of depression and [] threats of suicide

80. BYRON, *supra* note 52, at 299–301 (screaming at employees), 9, 171 (screaming at children), 281–82 (an encounter with a local tradesman that escalated into a charge of assault), 254 (“snarling” at a dinner guest), 182 (screaming at a journalist).

81. *Id.* at 172.

82. ROBERT I. SUTTON, *THE NO ASSHOLE RULE: BUILDING A CIVILIZED WORKPLACE AND SURVIVING ONE THAT ISN’T* 10 (2007).

83. Marsh, *supra* note 5 (quoting Philip Burguières).

84. Faces of Depression: Philip Burguières, <http://www.pbs.org/wgbh/takeonestep/depression/faces-philip.html> (last visited Dec. 12, 2008) (quoting Philip Burguières).

85. See Susan Percy, Suicide & Mental Health Int’l, *Quiet Pain: CEO Depression and Suicide*, <http://suicideandmentalhealthassociationinternational.org/quietpain.html> (last visited Oct. 1, 2008).

86. Susan Brink, *CEO Sufferings Trickle Down*, U.S. NEWS & WORLD REP., Sept. 29, 2003, at 60 (describing the cover-up strategies of CEOs suffering from depression).

87. BOWER, *supra* note 53, at 130.

and even an event of self-mutilation.”⁸⁸ Jeff Skilling plunged into a depression upon being named CEO of Enron, despite it being his long-time dream.⁸⁹

II. THE CONSEQUENCES OF CEO PATHOLOGIES

So far, this Article has recounted some evidence of five CEO pathologies. The stories are often colorful; perhaps they can even help us understand the role that personality can play in amassing and discharging executive power. These stories also suggest some tantalizing correlations between personality and abuse of power. This section further explores the notion that CEO pathology is more than an expression of personality traits. CEO pathology may have a real impact on a corporation and its performance.

We begin with the proposition that dysfunction at the top tends to infect an organization:⁹⁰ “When the boss is disagreeable, disagreeableness spreads.”⁹¹ What, then, are the consequences for an organization when its CEO suffers from narcissism, over-optimism, fear, anger, or depression? The consequences (save for those related to depression) may actually be very positive. Indeed, CEO pathology may often be adaptive—a necessary ingredient in organizational success. Lee Iacocca and Jack Welch, for instance, were both narcissists. Yet, their insistence on conflating their personal identities with their corporations’ public images undoubtedly played a positive role in Chrysler’s resilience and GE’s presence on the list of “best managed companies.” Bill Gates and Larry Ellison were both over-optimists; both repeatedly over-promised and under-delivered, at least until their companies could develop the products they believed were possible.⁹² Their enthusiasm for the future and their insistence that their employees could execute their personal vision carried their companies through the all-important formative years. All four of these men are now legendary in the

88. BYRON, *supra* note 52, at 311.

89. EICHENWALD, *supra* note 58, at 396.

90. See generally Randall S. Peterson, Brent D. Smith, Paul V. Martorana & Pamela D. Owens, *The Impact of Chief Executive Officer Personality on Top Management Team Dynamics*, 88 J. APPLIED PSYCHOL. 975 (2003).

91. Fishman, *supra* note 31, at 47.

92. See WALLACE & ERICKSON, *supra* note 76, at 152 (“Microsoft overcommitted itself and set unrealistic deadlines, but as far as Gates was concerned, it was more important to get the sale and worry about the consequences later. And Gates had supreme confidence that he could handle those consequences.”); WILSON, *supra* note 73 (noting numerous occasions when Ellison promised products Oracle was at the time incapable of providing). “Very often, Ellison would say that something was in the database that hadn’t yet been done.” SYMONDS, *supra* note 51, at 72.

corporate world. They each offer proof that “[a CEO’s c]raziness [may be] an asset, not a liability.”⁹³

CEO pathology may also, however, have very harmful and often predictable consequences. Individual pathologies can impose significant harm on an organization. A combination of pathologies such as narcissism, over-optimism, fear, and anger can do irreparable damage to a business firm. In the next few pages, we will explore the nature of these influences. It is difficult not to conclude that CEO pathologies matter.

A. Narcissism

As noted above, CEO narcissism is more than self-absorption. Scholars have hypothesized that narcissistic CEOs are likely to exhibit “strategic grandiosity” and also to assemble “submissive” management teams.⁹⁴ Additionally, it is important to narcissists that they not only seem, but actually be, in tight control of their environments. Thus, narcissistic CEOs sometimes commandeer their companies, initiating high-risk ventures, undertaking “bold, quantum, highly visible initiatives, rather than incremental elaborations on the *status quo*. In turn, narcissistic CEOs will tend to deliver extreme and volatile performance for their organizations. . . . [Each] new, transitory direction will tend to either be a big hit or a big miss.”⁹⁵ When those initiatives do not succeed, moreover, narcissistic CEOs are likely to be slow to recognize failure: Their belief in themselves and their obsession with control can often lead to disastrous choices.

High ego people are slow to recognize problems as attributable to their mistakes; rather, they minimize them as controllable and seek to correct them through an increase in persistence and aggression. Although this is an adaptive strategy on average, it can easily compound the risk (essentially, the phenomenon of throwing good money after bad).⁹⁶

Even when they do not undertake high-risk initiatives or fail to abort those initiatives that are unsuccessful, narcissistic CEOs can still have a debilitating influence on their organizations. Their self-serving behavior

93. STANLEY BING, *CRAZY BOSSES: FULLY REVISED AND UPDATED* 68 (2007).

94. Arijit Chatterjee & Donald C. Hambrick, *It's All About Me: Narcissistic CEOs and Their Effects on Company Strategy and Performance* 5 (May 4, 2006) (unpublished study, Pennsylvania State University's Smeal College of Business) available at http://jacksonleadership.com/pdfs/Narcissistic_CEOs_05-04-06_ASQ.pdf.

95. *Id.* at 13, 18.

96. Donald C. Langevoort, *The Organizational Psychology of Hyper-competition: Corporate Irresponsibility and the Lessons of Enron*, 70 GEO. WASH. L. REV. 968, 974 (2002).

can lead to frustration from senior managers whose recommendations cannot get a fair hearing,⁹⁷ development of an atmosphere of resentment and mistrust,⁹⁸ cynicism among subordinates about their role in the organization,⁹⁹ and diversion of resources from desirable uses to those that enhance the CEO's personal goals.¹⁰⁰

A narcissistic CEO often blames others for his or her own failures while claiming credit for the good ideas of others.¹⁰¹ The result may be an outflow of key talent, employees withholding their best ideas, and, in any event, simmering resentment. A narcissist may also squander valuable time micromanaging other people's work. Consider Jack Welch redesigning his sales managers' PowerPoint presentations,¹⁰² or Martha Stewart's obsessing over the placement of commas in her television scripts, leading her writers to states of "near hysteria."¹⁰³

Not surprisingly, narcissistic CEOs can be impossible to work for. Those CEOs who are intensely narcissistic (e.g., those who might be diagnosed as having Narcissistic Personality Disorder) are not only self-referential and demanding, but are also exploitative and lacking in empathy.¹⁰⁴ Surely, working for toxic leaders like these can add to workplace stress and disillusion, absenteeism, "hiding" behaviors, and employee turnover. It can also decrease employee productivity and cooperation.¹⁰⁵

Above all, narcissistic CEOs are impervious to criticism and advice. In part, they are able to avoid negative feedback by surrounding themselves with flak-deflectors—lawyers, public relations people, and

97. DOWNS, *supra* note 37, at 36 ("The narcissist is inflexible and intolerant of differing viewpoints . . .").

98. *Id.* at 28 ("The narcissist creates a working environment that lacks trust, then finds that others often mistrust her in return.").

99. *Id.* at 37 ("The narcissistic manager denies the humanity of others, choosing to view them as objects, or modules, to be moved about the game board of the organization.").

100. *Id.* at 59. ("[A narcissist measures] success not in profit and loss, but in the economies of personal achievement and glory.").

101. *Id.* at 51, 54.

102. See *supra* note 41 and accompanying text. Welch was said to be "almost fanatical" about his own presentations. BYRON, *supra* note 44, at 104.

103. BYRON, *supra* note 52, at 300.

104. Belinda Jane Board & Katarina Fritzon, *Disordered Personalities at Work*, 11 PSYCHOL., CRIME & L. 17 (2005).

105. See, e.g., Michael Maccoby, *Narcissistic Leaders: The Incredible Pros, the Inevitable Cons*, HARV. BUS. REV., Jan.-Feb. 2000, at 92:

[N]arcissists are typically not comfortable with their own emotions. They listen only for the kind of information they seek. They don't learn easily from others. They don't like to teach but prefer to indoctrinate and make speeches. They dominate meetings with subordinates. The result for the organization is greater internal competitiveness at a time when everyone is already under as much pressure as they can possibly stand.

other sycophantic handlers. They also avoid criticism simply by failing to hear it. Michael Maccoby has vividly described this self-destructive scenario:

[As a narcissistic CEO takes charge and initiates change,] he boasts . . . that all his top executives support his moves. I hear from a key vice president that he doesn't listen when they disagree with him. He becomes cramped with paranoia. He tries desperately to control everything because no one can be trusted. He starts to see enemies everywhere. He can't slow down or stop, continuing on his path of expansion and debt even though his colleagues counsel against it. No one can talk to him. *He thinks his critics are just protecting themselves or jealous and out to get him.* . . . No one can reach him, and he is fired three years after he took the position.¹⁰⁶

Narcissism, in short, isolates CEOs and interferes with their ability to collaborate with co-workers and subordinates. More than just a benign accoutrement of managerial success, narcissism has the potential to tear a company apart.

B. Over-Optimism

The consequences of CEO over-optimism are similar to those of CEO narcissism. First, over-optimistic CEOs may lead their companies into ill-considered ventures. Second, they may fail to recognize when corporate strategies are failing. Third, they may set expectations so high that employees must either cheat to achieve them or flee to escape them. Fourth, over-optimistic CEOs may stifle the delivery of bad news from below.

"Celebrity" CEOs are especially prone to over-optimism. Once they get a reputation for exemplary leadership, they tend to see themselves as invincible.¹⁰⁷ These CEOs may, in fact, enter a "fantasy world" in which they surround themselves with acolytes and yes-men and fail to recognize the folly of their latest vision.¹⁰⁸

Apart from the celebrities, however, let us consider more carefully the impact of CEO over-optimism. It reveals itself in recurring patterns. Over-optimistic CEOs typically overestimate the return on their

106. MACCOBY, THE PRODUCTIVE NARCISSIST, *supra* note 32, at 130-31.

107. Mathew L.A. Hayward, Violina P. Rindova & Timothy G. Pollock, *Believing One's Own Press: The Causes and Consequences of CEO Celebrity*, 25 STRATEGIC MGMT. J. 637 (2004).

108. John A. Byrne, William C. Symonds & Julia Flynn Siler, *CEO Disease*, BUS. WK., Apr. 1, 1991, at 52. Interestingly, there is an observable correlation between the receipt of a "Best CEO" award and a decline in corporate performance. Malmendier & Tate, *supra* note 14, at 3.

investment projects.¹⁰⁹ In the thrall of an idea, they fail to consider the possibility of failure or even of routine results.

When forecasting the outcomes of [these] projects, executives [often] fall victim to what psychologists call the planning fallacy. In its grip, managers make decisions based on delusional optimism rather than on a rational weighting of gains, losses, and probabilities. They overestimate benefits and underestimate costs. They spin scenarios of success while overlooking the potential for mistakes and miscalculations. As a result, managers pursue initiatives that are unlikely to come in on budget or on time—or to ever deliver the expected returns.¹¹⁰

Having initiated an ambitious project, over-optimistic CEOs then often fail to acknowledge that it is time to turn back or regroup. Georgetown's Donald Langevoort has dubbed this scenario the "optimism-commitment whipsaw."¹¹¹

CEOs who are over-optimistic may also infect their organizations with aspirations that employees cannot achieve other than by channel-stuffing, generating false invoices, or otherwise engaging in some form of fraud. Certainly, over-optimism at the top sometimes drives others to make foolish decisions.¹¹² The early part of this decade offered many examples of decision-makers who falsified financial figures because they wanted to ensure that their companies achieved ambitious earnings estimates.¹¹³ Competent professionals also falsified their companies' financial statements in the mistaken (and over-optimistic) belief that failure to meet those estimates was just a temporary problem that could be solved in the subsequent quarter.¹¹⁴

CEO over-optimism may pervade the hierarchy in less pernicious ways as well. When CEOs promote over-optimistic expectations, subordinates may get the clear message that they should distort or conceal bad news. This problem is exacerbated when the CEO has a volatile temper or when, narcissistically, he or she personalizes

109. See Ulrike Malmendier & Geoffrey Tate, *CEO Overconfidence and Corporate Investment*, 60 J. FIN. 2661 (2005).

110. Lovullo & Kahneman, *supra* note 56, at 58.

111. Langevoort, *supra* note 20, at 974.

112. See Donald C. Langevoort, *Managing the "Expectations Gap" in Investor Protection: The SEC and the Post-Enron Reform Agenda*, 48 VILL. L. REV. 1139, 1150 (2003) (noting how CEO expectations can migrate to CFOs and subordinates, who then also get caught up in meeting unrealistic goals).

113. See generally ALEX BERENSON, *THE NUMBER: HOW THE DRIVE FOR QUARTERLY EARNINGS CORRUPTED WALL STREET AND CORPORATE AMERICA* (2003).

114. See *Former CEO Indicted in WorldCom Scandal*, SEATTLE TIMES, Mar. 3, 2004, at E1 (noting that, in pleading guilty to securities fraud, WorldCom CFO Scott Sullivan told the court "I took these actions, knowing that they were wrong, in a misguided effort to preserve the company to allow it to withstand what I believed were temporary financial difficulties.").

corporate performance and views every setback as a personal failure. In short, CEO over-optimism, like CEO narcissism, can blind a CEO to reality and lead a company to ruin.

C. Fear

The flip side of over-optimism is fear. Fear is likely to lead in one of two directions—recklessness or risk aversion. Fear may also lead to denial, indecision, and organizational paralysis. Importantly, CEOs driven by fear are unlikely to share their fears, so they fail to seek feedback from their subordinates or guidance from their boards that might help them identify alternatives to the plans so carefully locked inside their heads. Furthermore, fearful CEOs are often defensive and inflexible. They are unlikely to be able to receive constructive criticism, which may only exacerbate their fears.¹¹⁵

Fear, like over-optimism, can spiral both outward and downward:

To overcome their fears, [CEOs] drive so hard for perfection that they are incapable of acknowledging either failures or weaknesses. When confronted with their failures, they try to cover them up or to create a rationale that convinces others these problems are not their fault. Often they look for scapegoats on whom to blame their problems, either within their organization or outside. Through the combination of power, charisma, and communications skills, they convince others to accept these distortions, causing entire organizations to lose touch with reality. In the end, it is their organizations that suffer.¹¹⁶

In other words (and perhaps ironically), fear can exacerbate the optimism-commitment whipsaw. A CEO who has set unrealistically high goals and then sees the company falling short is likely to take steps to mask this failure. And, as Professor Langevoort has noted, a CEO who feels imperiled is likely to manipulate information, engage in diversionary acquisitions, and undertake increasingly risky strategies.¹¹⁷ As the threat of discovery grows, so too does the company's risk of

115. Carly Fiorina may be one such example. She insisted she did not need help in orchestrating the integration of Hewlett-Packard and Compaq. HP's board ultimately decided otherwise. See Craig Johnson, *The Rise and Fall of Carly Fiorina: An Ethical Case Study*, 15 J. LEADERSHIP & ORG. STUDIES 188 (2008) (tracing the board's growing insistence that Fiorina hire a chief operating officer and the board's ultimate decision to demand her resignation); Ben Elgin, *The Inside Story of Carly's Ouster*, BUS. WK., Feb. 21, 2005, at 34 ("the board's proddings of Fiorina to bolster HP's operations talent went largely unheeded.").

116. GEORGE, *supra* note 74, at 30.

117. Donald C. Langevoort, *Resetting the Corporate Thermostat: Lessons from the Recent Financial Scandals About Self-Deception, Deceiving Others and the Design of Internal Controls*, 93 GEO. L. J. 285, 307 (2004).

illegal activity. The greater the CEO fears failure, the more likely he or she is to succumb to the temptation to cheat.

D. Anger

Like a fearful CEO, an angry CEO may generate negative consequences for a company. Outbursts of temper may demoralize those who witness them, cause subordinates (quite reasonably) to withhold information that might evoke further outbursts, and, over time, breed resentment and disobedience.¹¹⁸ CEO anger may also lead to ridicule and scorn.

Anger directed downward is particularly toxic—employees who feel humiliated and disrespected are unlikely to perform at the top of their game. Employees who are bullied repeatedly, of course, may ultimately decide to quit and move on. Even those that remain, however, experience “[a decline] in work and life satisfaction, reduced commitment to [their employer], and heightened depression, anxiety, and burnout.”¹¹⁹ In other words, “mean-spirited people do massive damage to victims, [to] bystanders who suffer the ripple effects, [to] organizational performance, and [to] themselves.”¹²⁰

E. Depression

We come, finally, to depression. There is little to say about this pathology, in part because it is so frequently hidden and in part because its impact has rarely been traced. Still, it is fair to infer that, when the CEO is holed up in his or her office unable to cope with the stresses of the job, or stays at home unable even to get out of bed, decisions are deferred, subordinates are demoralized, and opportunities are lost. And, unlike the four other CEO pathologies, nothing good is likely to come from CEO depression.

F. Multiple Pathologies

It is easy to see that any one of the pathologies described in this Article may inflict significant harm in a corporate environment; a

118. In one case, a CEO's vituperative e-mail to his management team giving them a two-week ultimatum to “shape up,” was leaked to the press, causing the company's stock to fall 22 percent. Philip Delves Broughton, *Boss's Angry E-mail Sends Shares Plunging*, DAILY TELEGRAPH (London), Apr. 6, 2001.

119. SUTTON, *supra* note 82, at 29.

120. *Id.* at 27.

confluence of pathologies can be even worse. Multiple pathologies can reinforce a CEO's worst instincts. For example, an over-optimistic CEO who systematically discounts risk may compound that error if he or she narcissistically rejects criticism. A narcissistic CEO who is mistrustful and controlling may become even more so when acting from a position of fear.

Pathologies, in short, can align in many combinations. They may also ebb and flow with age, family circumstances, social position, and (real and perceived) business success. In other words, pathologies are not static and—to some degree—can be mitigated by conscious effort. Step one in the mitigation process is to know what pathologies are and how they may influence CEO behavior. Step two is to recognize whether a *particular* CEO is behaving pathologically, and if so, to assess whether that behavior is having a negative effect on the organization. Step three is to determine an appropriate course of action for dealing with the effects of the pathology or pathologies. The appropriate locus for this three-step process is, ultimately, the board of directors.

III. IDENTIFYING AND MITIGATING CEO PATHOLOGIES AT THE BOARD LEVEL

So far in this Article, we have looked at some evidence of CEO pathologies, observing both what pathology looks like and how it may shape the decision-making process. Boards often fail to grapple with CEO pathologies for many reasons. First, boards are made up primarily of CEOs, former CEOs and people who aspire to be CEOs.¹²¹ These directors may fail to recognize CEO pathologies because they share them. Second, these directors may recognize CEO pathologies but fail to act on them because of their (self-serving) belief that these pathologies reflect healthy, competitive, successful behavior. Third, these directors may recognize CEO pathologies and also their harmful potential, yet be unwilling to correct the pathological behavior, at least so long as it seems to generate profits. Fourth, these directors may be bamboozled by CEOs who willfully mask their pathologies through charm, guile, or obfuscation.

Individual directors may fail to address CEO pathologies for any of these reasons. Boards acting collectively may compound the problem. That is, scholars have conclusively established that individual shortcomings—and cognitive biases—are often reinforced in group

121. See *Board Leadership and Composition*, *supra* note 1 (noting that, in addition to current and former CEOs, 21% of board members are now active or retired division managers or functional unit leaders, not CEOs).

settings; “[i]n particular, it has been shown that group dynamics [such as those that govern the boardroom] can bind group members together and blind them to their failings and excesses.”¹²² The phenomenon of “groupthink” in decision-making is one predictable consequence of this process.¹²³ Another is failure to identify risks from personality characteristics, such as narcissism or over-optimism, commonly associated with business success.

Consider the problem facing corporate boards: Directors understandably bask in the reflected light of a successful CEO, they are happy to take credit when their CEO is a winner. Having selected the CEO through some form of competition, directors become highly invested in their selection; they want their CEO to do well. Psychologically, they believe he or she *will* do well. And, oftentimes they cannot bear for the CEO to fail. Failure impairs their own reputational capital. It also undermines their strongly-held sense of competence and control.

Professor Langevoort has ably described how this dynamic may play out:

[A] streak of good fortune for the firm—which may be managerial skill, but may be just as much the state of the economy—creates a psychological dynamic that works to the CEO’s favor. First, the CEO has ample opportunity and resources to expand the board’s external influence, thereby making ingratiation tactics more effective. The social ties grow, which makes the inclination to monitor diminish. Not far under the surface here are cognitive dissonance and a related set of commitment biases: the longer a streak of positive information flows, the more board members attribute that success to the person they’ve put in place and hence develop mental schemata that credit the CEO with skill. Once those schemata are fixed, they become increasingly hard to disconfirm. Any negative information that subsequently appears tends to be dismissed until the threat is undeniable, partly because of simple cognitive conservatism, partly because the board—having committed itself to the CEO by virtue of both selection and generous compensation—is averse to acknowledging that it may have made an error.¹²⁴

In other words, directors themselves are sometimes subject to narcissism, over-optimism, fear, anger, and depression. The very same pathologies that can distort CEO performance can also distort the board’s oversight role.

122. Hall, *Looking Beneath the Surface*, *supra* note 20, at 17.

123. See Marleen A. O’Connor, *The Enron Board: The Perils of Groupthink*, 71 U. CIN. L. REV. 1233 (2003). (describing the “groupthink” theory and analyzing its application in the context of Enron’s board).

124. Langevoort, *supra* note 117, at 310.

IV. A PRESCRIPTION

This Article suggests that boards of directors, as a by-product of their success, may be oblivious to the failings of others who are similarly situated and with whom they share a professional affinity. Moreover, they may fail to recognize signs that the CEOs and other senior executives with whom they do business are behaving pathologically to the detriment of the firm. What should be done to correct this harmful pattern of behavior?

First, in addition to the many agenda items that a board must consider when it convenes, it should add one more—a systematic senior executive “pathology audit.” In the context of setting executive compensation, discussing succession, or strategic planning, directors should at least annually “take the pulse” of their senior executives, conduct a performance evaluation designed to tease out behavioral problems, and squarely address the issue of CEO pathology. Is the CEO a narcissist and, if so, is that a subject that needs to be addressed through executive coaching or other intervention?¹²⁵ Is the CEO a mean son-of-a-bitch whose temper tantrums or unrealistic expectations are driving good people away?¹²⁶ Does the CEO need a “sidekick” to counterbalance his or her pathological instincts?¹²⁷ Has the CEO’s pathology crossed over some tipping point, where the downsides of the pathology outweigh the benefits? If so, then the board may have to make the hard decision to say “goodbye” to its CEO.

Second, directors ought to infuse their succession-planning exercises with an awareness of contestants’ emerging and evolving pathologies.

125. Simple mechanisms for diagnosing narcissism may include measuring the size of the CEO’s picture in the annual report, counting references to the CEO in a company’s press releases, and the length of the CEO’s entry in *Who’s Who*. See Chatterjee & Hambrick, *supra* note 94 (describing methodology for identifying CEOs with narcissistic traits). It may also include an assessment of the CEO’s use of the corporate jet. See David Yermack, *Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Corporate Returns*, 80 J. FIN. ECON. 211 (2006) (tracing the use of corporate jets by CEOs).

126. This issue is especially important in companies with a young workforce. “Younger staffers simply won’t stick around to work for idiot bosses. . . . Their reaction to a command-and-control leader who blasts off mean missives or ridicules customers? Post the comments on a blog.” Diane Brady, *Charm Offensive: Why America’s CEOs Are Suddenly So Eager to Be Loved*, BUS. WK., June 26, 2006, at 76.

127. The use of a “sidekick” or “foil” is often recommended, particularly for so-called “visionary” leaders. Successful visionary-foil relationships include Bill Gates and Steve Ballmer and Warren Buffett and Charlie Munger. See generally HAYWARD, *supra* note 57, at 104–05. See also MACCOBY, THE PRODUCTIVE NARCISSIST, *supra* note 32, at 54 (“Almost every productive narcissist CEO today has an obsessive COO (and if they don’t they probably should).”); Paredes, *supra* note 7, at 679, 681 (suggesting that a “chief naysayer” might serve as an important counterweight to an overconfident CEO).

Today, we know a great deal about the stresses of the CEO selection process,¹²⁸ which itself often stimulates pathological behavior.¹²⁹ At a minimum, boards should impose a “no asshole rule” for top-level succession candidates. They should familiarize themselves with the signs of asshole behavior, making it clear to tournament participants that such behavior is unacceptable and will not be rewarded.

Third, boards should consciously consider the possibility of their own pathologies and enabling behavior. Self-awareness and a serious discussion of CEO pathologies (including their own) may improve directors’ own leadership and decision-making skills.¹³⁰

V. CONCLUSION

This Symposium has asked some important questions. What causes board dysfunction? How can board dysfunction be identified? What are the consequences of board dysfunction? How can board dysfunction be corrected?

This Article has suggested one approach to these questions, by focusing on the psychological attributes of CEOs. The Article has examined five common CEO pathologies—narcissism, over-optimism, fear, anger, and depression. It has offered some detailed evidence of these pathologies among high-visibility American CEOs. It has also offered some thoughts on the organizational damage that these pathologies may inflict. It has acknowledged that CEO pathologies—even severe pathologies—are not necessarily a formula for corporate decline or crime.

Still, given the possible—even probable—adverse impact of one or more of these pathologies on organizations, the issue of CEO pathology should, like other performance metrics, regularly be on the agenda for serious board discussion. Boards should be on the lookout for CEO pathologies both during the selection process and throughout a CEO’s

128. See O’Connor, *supra* note 123, at 1252 (describing the “gladiatorial” nature of the executive selection process); Marleen A. O’Connor, *Women Executives in Gladiator Corporate Cultures: The Behavioral Dynamics of Gender, Ego, and Power*, 65 MD. L. REV. 465 (2006) (noting that women face systematic disadvantages as they ascend in the corporate hierarchy).

129. See, e.g., Langevoort, *supra* note 20, at 971 (noting that the tournament process is “skewed in the direction of rewarding those who are highly focused at the business of competing, which of necessity means the cognitive ability to block out concerns—like difficult ethical problems—that are likely to be distracting”); Donald C. Langevoort, *Overcoming Resistance to Diversity in the Executive Suite: Grease, Grit, and the Corporate Promotion Tournament*, 61 WASH. & LEE L. REV. 1615, 1630, 1631 (2004) (noting that the tournament process usually results in the selection of Machiavellian candidates who are “ethically and socially nimble” and who are “extremely aggressive vis-à-vis out-group members”).

130. Hall, *Looking Beneath the Surface*, *supra* note 20, at 19.

tenure. They should also consider the role that pathologies may play in their own decision-making role.

Most important, CEOs should cultivate a deeper awareness of their own tendencies towards pathological behavior. Reflection on the role that pathology can play in advancing toward leadership and exercising it wisely is an underrated virtue in the quest for corporate power.